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# CREDIT RATING

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# Credit Rating

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***Abstract – Credit ratings are determined by credit ratings agencies. The credit rating represents the credit rating agency's evaluation of qualitative and quantitative information for a company or government; including non-public information obtained by the credit rating agencies' analysts.***

***Credit ratings are not based on mathematical formulas[1] Instead, credit rating agencies use their judgment and experience in determining what public and private information should be considered in giving a rating to a particular company or government. The credit rating is used by individuals and entities that purchase the bonds issued by companies and governments to determine the likelihood that the government will pay its bond obligations.***

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## INTRODUCTION

A **credit rating** is an evaluation of the credit worthiness of a debtor, especially a business (company) or a government, but not individual consumers. The evaluation is made by a credit rating agency of the debtor's ability to pay back the debt and the likelihood of default. Evaluations of individuals credit worthiness is known as credit reporting and done by credit bureaus, or consumer credit reporting agencies, which issue credit scores.

## SHORT-TERM RATING

A short-term rating is a probability factor of an individual going into default within a year. This is in contrast to long-term rating which is evaluated over a long timeframe. In the past institutional investors preferred to consider long-term ratings. Nowadays, short-term ratings are commonly used.

First, the Basel II agreement requires banks to report their one-year rose if they applied internal-ratings-based approach for capital requirements. Second, many institutional investors can easily manage their credit/bond portfolios with derivatives on monthly or quarterly basis. Therefore, some rating agencies simply report short-term ratings.

## CORPORATE CREDIT RATINGS

Credit ratings that concern corporations are usually of a corporation's financial instruments i.e. debt security such as a bond, but corporations themselves are also sometimes rated. Ratings are assigned by credit rating agencies, the largest of which are Standard & Poor's, Moody's and Fitch Ratings. They use letter designations such as A, B, C. Higher grades are intended to represent a lower probability of default.

## HOW IMPROVE TO CREDIT RATING

Improve to credit rating? We explain how in 10 simple steps.

If you're having difficulty getting credit approved, rather than continuing to apply for different financial products you should take a step back and examine the reasons why your applications may have been rejected. Addressing any issues you find will help to improve your credit rating and your eligibility for market leading offers. We explain how to improve your credit rating in 10 simple steps

### Step 1 - Check your report

Whenever you make an application for a new financial product the lender will obtain a credit report detailing your financial history from at least one of three UK based credit reference agencies . As the decision to accept or reject you will be largely based on this report it is essential that the information contained within is detailed correctly.

### Step 2 - Amend any errors

If you do find any inaccurate information on your credit report its important to get it amended as soon as possible as it could be blighting your credit score and making it harder for you to get the financial products you want. To do this you'll need to contact the credit reference agency in question and inform them of the error. They will then mark the disputed information as such and take steps to resolve the issue.

### Step 3 - Start with the basics

If you're relatively new to credit, financial providers have very little information to base your creditworthiness on and so may turn you down simply because they have no idea whether you're going to be a safe bet or just default at the first hurdle.

**Step 4 - Say goodbye to credit overload**

If you already have a number of credit cards, regularly make payments on time but have been turned down for a new application it may well be that you simply have access to too much credit in relation to your means to repay. By cancelling some of your unused cards (do this officially by contacting the card provider and requesting card cancellation) you may increase your chances of being accepted for new credit.

**Step 5 – Register to vote**

It is very unlikely that you'll be granted new credit if you're not on the electoral roll as this is the primary source of information lenders use to verify your address. If you are unsure as to whether you are listed you should contact your local council office who will be able to advise you where you can access the relevant records and will also provide you with a registration form if you need one

**Step 6 - Make yourself look 'stable'**

Evidence of stability in your life makes providers more confident about lending to you. In practical terms this means applying for credit before you move house, change job, go on maternity leave or make any other drastic alteration in your way of living.

**Step 7 – Bide your time**

Each time you apply for credit, a search is performed and recorded as part of your financial history. This is seen by prospective providers each time you make a new application and not only relates to applications for credit cards and loans but also for pay monthly schemes for car insurance, mobile phones and the like.

**Step 8 - Be independent**

Your credit report links you financially to anyone you have shared credit with in the past. Potentially, this could adversely affect your credit score as if they are deemed 'financially unreliable' lenders may tar you with the same brush. The best way to overcome this issue is firstly to avoid sharing new credit with anyone who has less than a 'rosy' credit history, or, if you have shared credit in the past but the agreement no longer stands ask for a

**Step 9 - Make payments on time**

Late or defaulted payments can do real damage to your credit rating so it is really important to be on time with the minimum repayments of any credit agreements you have. If you are struggling to meet your minimum repayments the best thing you can do is to contact your lender; they may be able to change your schedule of repayments to spread out the financial burden and make being on time more manageable. While a history of late or missed repayments will be detailed on your credit report, several months of making payments on time will help to reduce the impact.

**Step 10 – Check again**

Your credit report is continually changing based on the way you manage your finances. By checking these reports at least once every 12 months you'll know where you stand financially and will be in the best position to apply for the financial products you're likely to get accepted for note to be added to your report asserting your independence

## CREDIT RATING HISTORY

**Credit history** or **credit report** is, in many countries, a negative record of an individual's or company's past borrowing and repaying, including information about late payments and bankruptcy. The term "**credit reputation**" can either be used synonymous to *credit history* or to *credit score*

In many countries, when a customer fills out an application for credit from a bank, store or credit card company, their information is forwarded to a credit bureau. The credit bureau matches the name, address a nd other identifying information on the credit applicant with information retained by the bureau in its files. That is why it is very important for creditors, lenders and others to provide accurate data to credit bureaus

The other factor in determining whether a lender will provide a consumer credit or a loan is dependent on income. The higher the income, all other things being equal, the more credit the consumer can access. However, lenders make credit granting decisions based on both ability to repay a debt (income) and willingness (the credit report) as indicated by a history of regular, unmissed payments.

These factors help lenders determine whether to extend credit, and on what terms. With the adoption of risk-based pricing on almost all lending in the financial services industry, this report has become even more important since it is usually the sole element used to choose the annual percentage rate (APR), grace period and other contractual obligations of the credit card or loan.

## CONCLUSION

Credit ratings for borrowers are based on substantial due diligence conducted by the rating agencies. While a borrower will strive to have the highest possible credit rating since it has a major impact on interest rates charged by lenders, the rating agencies must take a balanced and objective view of the borrower's financial situation and capacity to service/repay the debt .Credit rating changes can have a significant impact on financial markets. A prime example of this effect is the adverse market reaction to the credit rating downgrade of the U.S. federal government by Standard & Poor's on August 5, 2011. Global equity markets plunged for weeks following the downgrade.

For individuals, the credit rating is conveyed by means of a numerical credit score that is maintained by Equifax, Experian and other credit-reporting agencies. A high credit score indicates a stronger credit profile and will generally result in lower interest rates charged by lenders.

## REFERENCE

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